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The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Vic 8007

Dear Chairman

Request for Comment on IASB Discussion paper "Preliminary Views on an improved Conceptual Framework for Financial Reporting: *The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*"

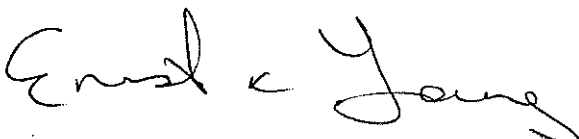
We are pleased to submit our comments in relation to the AASB's specific matters for comment in relation to Invitation to Comment 11: Request for Comment on IASB Discussion Paper "Preliminary Views on an Improved Conceptual Framework for Financial Reporting: *The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*".

On the basis that Australia maintains a sector-neutral approach to Accounting Standards, it is important to have a Framework which is applicable to both the private and public sector entities. The revised Framework as is currently proposed by the IASB will not provide adequate support for a sector neutral approach for a number of reasons which are detailed below.

As Ernst & Young Global will be providing a separate submission to the IASB on the matters discussed in the Discussion Paper, we have only provided comments on the specific matters requested by the AASB in ITC 11.

We would be pleased to discuss our comments further with you. Please contact Annette Kimmitt on (03) 9288 8141 or Georgina Dellaportas on (03) 9288 8621 if you wish to discuss any of the matters raised in this response.

Yours faithfully



Ernst & Young

SPECIFIC MATTERS FOR COMMENT

- 1. The IASB-FASB joint conceptual framework project has an initial focus on for-profit entities in the private sector. In relation to the topics of “objective” and “qualitative characteristics” covered by the Discussion Paper, what matters do you consider require attention if this revised Framework was also to be applied in Australia to not-for-profit entities in the private and public sectors and for-profit entities in the public sector?**

In our opinion, the following matters in relation to the proposed concepts of “objective” and “qualitative characteristics” require attention if the revised *Framework* was also to be applied in Australia to not-for-profit entities in the private and public sectors and for-profit entities in the public sector:

- (a) Objective is too narrow and does not adequately incorporate the principles of accountability and stewardship**

While paragraphs OB27 and OB28 of the IASB’s Discussion Paper acknowledge that the objective of financial reporting encompasses providing information useful in assessing management’s stewardship, we are of the view that the proposed objective of the Framework is too narrow as it does not place enough emphasis on stewardship and accountability for it to be relevant to not-for-profit and public sector entities.

The Framework proposes that the objective of financial reporting “is to provide information that is useful ...in making ... decisions”. The emphasis is on information that enables the making of decisions, which is not necessarily the most important objective of financial information for not-for-profit and public sector entities. Some users of financial reports of not-for-profit and public sector entities do not have the ability to make direct decisions about resource allocations but are rather interested in information which will enable them to assess the adequacy of stewardship and accountability exercised by management, especially in relation to the utilization of the resources which have been contributed to them.

While providing information relevant to assessing an entity’s future cash flows will meet the objective of financial reporting under the Framework, it will not necessarily provide all the information which is useful for assessing management’s stewardship or accountability. Similarly, information relevant for assessing stewardship and accountability may be irrelevant for assessing cash flows.

We are therefore of the view that the objective of the Framework will need to place greater emphasis on stewardship and accountability for it to be relevant for not-for-profit entities and the public sector.

- (b) User group is too narrow and will need to be expanded**

Paragraph OB6 of the Preliminary Views document identifies equity investors, creditors, suppliers, employees, customers, governments and their agencies and regulatory bodies and members of the public as potential users of financial reports. OB12 further states that investors and creditors are the most prominent external group of users. While users in the form of creditors will exist for some not-for-profit entities and public sector entities, investors will not be a primary user group from the perspective of such entities which are generally characterized by the absence of a defined ownership group.

What is however a more appropriate user group for not-for-profit entities and public sector entities are users who provide resources to the entity in the form of contributions and other resources, the public at large as well as parliaments. These users are interested in information which will enable them to, inter alia:

- compare actual financial results with the budget tabled in Parliament;
- assess the adequacy of stewardship and accountability exercised by management, especially in relation to the utilization of the resources which have been contributed to them and will use this information to make decisions about the resources they provide to the entity in the future; and
- determine compliance with laws and regulations.

The user group will therefore need to be expanded to include these groups as additional primary users for it to be relevant to not-for-profit and public sector entities.

(c) Future cash flows are not necessarily relevant

Paragraph OB3 of the Discussion Paper states that “To help achieve its objective, financial reporting should provide information to help present and potential investors and creditors and others assess the amounts, timing and uncertainty of the entity’s cash future cash inflows and outflows (the entity’s future cash flows). That information is essential in assessing an entity’s ability to generate net cash inflows and thus to provide returns to investors and creditors.”

The Framework is very much focused on providing information which enables users to assess the cash flow prospects of the entity which while relevant for for-profit entities in the public sector, is not necessarily the most important feature of financial reporting for not-for-profit entities. Not-for-profit entities whether in the public or private sector do not have the generation of profit as a principal objective, and hence the provision of goods and services may not result in net cash inflows to the entity as the recipients of the goods or services may not transfer cash to the entity in exchange. However, such assets provide the entity with future service utility. Hence, what is critical for the users of such entities is for financial reporting to provide information on the future service utility of its resources, the adequacy of stewardship and accountability exercised by management, especially in relation to the utilization of the resources which have been contributed to them in the past in accordance with the entity’s objectives, budget and other legal requirements.

It is therefore our view that for the Framework to be relevant for not-for-profit entities it needs to consider the information needs of users which may not necessarily be focused on future cash inflows.

2. Are the proposals in the Discussion Paper in the best interests of the Australian economy?

We have no comment on this matter. This will be addressed as part of our EY Global submission.